Annual Report
1995

GLOBAL THERMOELECTRIC

Corporate Profile

Global Thermoelectric Inc. is an Alberta based industrial company engaged in developing, manufacturing and distributing thermoelectric based products. Thermoelectrics involves the conversion of heat energy to DC electric power.

Global is the leading supplier to the oil and gas industry of remote DC power generators which are used in well and pipeline cathodic protection systems and remote well monitoring and control systems. Remote DC power generators are also supplied to the telecommunications industry.

Originally incorporated as Global Thermoelectric Power Systems Ltd. on March 10, 1975, the Corporation changed its name to Global Thermoelectric Inc. on April 8, 1991. Global became a public company listed on the Alberta Stock Exchange on August 3, 1994. The Preferred Shares are traded under the stock symbol GLE.PR and the Warrants under the stock symbol GLE.WT. Global's Common Shares will begin trading when a sufficient number of warrant holders exercise the Warrants and preferred shareholders exercise their conversion privilege to meet the Exchange's requirement regarding the minimum number of shareholders.

Mission Statement

To be the world's leading supplier of devices for reliably converting fuel energy directly into electrical power or heat. We provide our customers with innovative and exceptional quality solutions, so that our Company, Shareholders and Employees will prosper.

Left to Right: Jim Lumsden, Larry Kyle, Rob Clegg, Bernie LeSage, John Howard

Letter to Shareholders

The past year has been one of the most exciting, dynamic and successful in Global's history and included the following highlights:

- Record financial results; revenues increased 91% and profits increased 208% from the previous year.
- Manufacturing facilities were consolidated and reorganized into one facility from two.
- Record production levels were achieved; three times the previous highest volumes were manufactured in one half the plant space.
- An Initial Public Offering was completed raising $1.6 million; Global Preferred Shares and Warrants became listed on the Alberta Stock Exchange in August 1994.
- Global's Quality Assurance program achieved registration under ISO 9002, an internationally recognized quality standard.

Record Financial Results

Increased demand for Global's thermoelectric generator products resulted in production being increased from 15 units a week to 60 units a week at peak production level. Revenues grew from $5.9 million in fiscal '94 to $11.2 million in fiscal '95 achieving an all time high for the Company.

These demand increases stretched capacity resulting in delivery backlog rising to levels which Global considered unacceptable. To remedy this problem necessitated increased overtime and the postponement of planned manufacturing process enhancements designed to improve profitability. As a result, customer satisfaction was maintained, and almost no orders were lost due to delivery time issues.

Net income rose to $1.1 million ($0.12 per common share) in fiscal '95 from $360 thousand ($0.05 per common share) in fiscal '94 – another all time high for the Company. However, this fell short of the earnings forecast of $1.6 million included in the prospectus and, as a result, the exercise date for the Warrants to purchase Common Shares will be extended by six months to February 5, 1996.

Plant and Facility Improvements

Global's manufacturing facilities at Bassano were consolidated from 60,000 square feet in two buildings into one 30,000 square foot building resulting in productivity improvements as a result of increased efficiency. The surplus building was sold, and the proceeds were used to pay off outstanding obligations. Other major plant improvements were: the rationalizing of production flow, a new final test stand, a new functional test stand, a new process stand, additional outside storage facilities, and air quality improvements. These improvements were made to increase production capacity, to update process equipment for future automation, to improve the environmental conditions for employees, and to increase worker safety.

Global has outgrown its Calgary facility which accommodates administrative, sales, and research and development personnel and will be relocating to a larger premises in July 1995. In addition to providing improved working conditions, this move will result in our full development engineering and test team, plus our environmental chambers, being located in one facility, thereby enabling quicker and more cost-effective product development.

Initial Public Offering

Global completed an Initial Public Offering of Preferred Shares and Warrants to purchase Common Shares in August 1994 for total net proceeds of $1.6 million. The Warrants originally were to expire on August 5, 1995 and have now been extended to February 5, 1996. The proceeds of the offering were principally utilized for production equipment, productivity enhancements, and a cash reserve for the heater production contract.

Quality Assurance Program

Given Global's growing international business, being registered with an internationally recognized quality assurance program is of utmost importance. Global achieved ISO 9002 registration on its first audit - an accomplishment which is not common for most applicants. The ISO 9002 standard is Global's first milestone on our drive toward total quality management.

Letter to Shareholders (Cont'd)

Strategy

The Company has adopted four main strategies to develop future growth opportunities: expand current markets with existing products, expand into new markets, develop new products for both new and current markets, and to identify strategic acquisitions and alliances which have synergies with Global's core business.

Successful implementation of these strategies will enable Global to continue the high rate of growth experienced to date. In order to fund this growth, improvements in earnings will have increased focus.

Outlook

We anticipate some softening of demand for generator products in North America in the short term as a result of lower natural gas prices and reduced levels of drilling activity and pipeline construction. Most analysts expect that gas demand will continue to increase and that gas oriented exploration and development will remain strong in the medium and long term. Wellhead automation for reduced costs and improved data gathering capability is a growing market for Global's generator product line, and this should offset to a degree the demand decline as a result of lower gas drilling. Global will continue to aggressively pursue international contracts to even out fluctuations in North American demand.

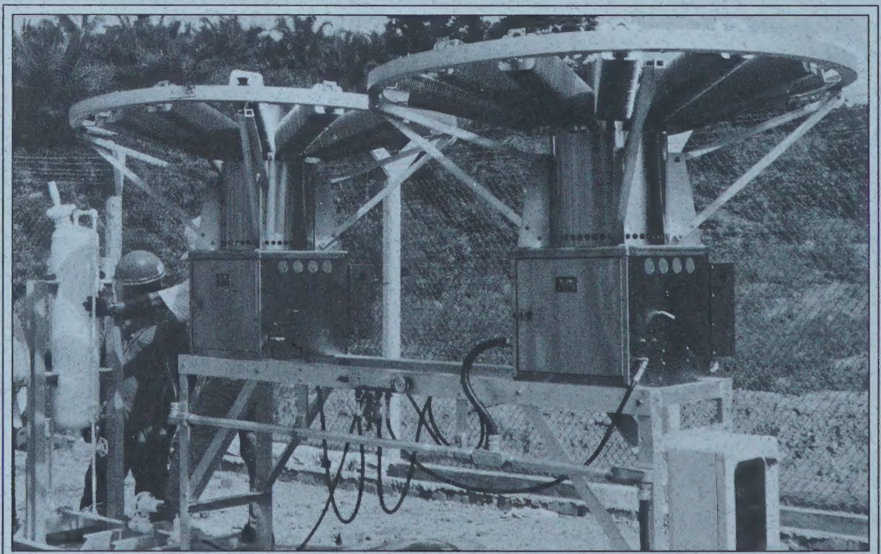
Global's intensive heater development effort has positioned it well to win the Heater Modernization Program (HMP) production contract with the US Army. Although prototypes have performed well to date, delays in the overall program have shifted contract award into the second half of Fiscal 1996. The net effect on revenues from a successful award beyond this fiscal year have not been determined at this time.

A number of changes in the Board of Directors took place during the year. Ted Schaffer, who had been associated with Global since the Company first established a presence in Alberta in 1975, resigned in February 1995. Ted's advice and counsel have been greatly appreciated. We welcome to the Board John W. Chomiak and Glynn G. Davies who became Directors on May 11, 1994 and December 15, 1994 respectively.

The accomplishments of the past year could not have been achieved without the enthusiasm, dedication and support of our employees. They have risen to every challenge that management and our customers have presented to them. We would like to thank each employee and each of our suppliers for all their hard work over the past year. A special thanks is due to our customers; without their support Global would not have been given this opportunity.

Jim McBride
Chairman

Rob Clegg
President



1100 Watt System for CP Application in Malaysia

Review of Operations

Generator Division

The principal products that Global Thermoelectric Inc. manufactures are thermoelectric generators. The generators convert heat energy from the combustion of natural gas or propane directly into DC electrical power. The main features of Global generators are: no moving parts, high reliability, predictable fuel consumption and long life with minimal maintenance. These features make the product very well suited to remote power needs where reliability is key.

The generators are available in six models, have power output ranges from 15 to 550 watts and are configured to meet the customers' exacting requirements. Power systems requiring up to 2000 watts can be designed at a competitive cost utilizing multiple generators.

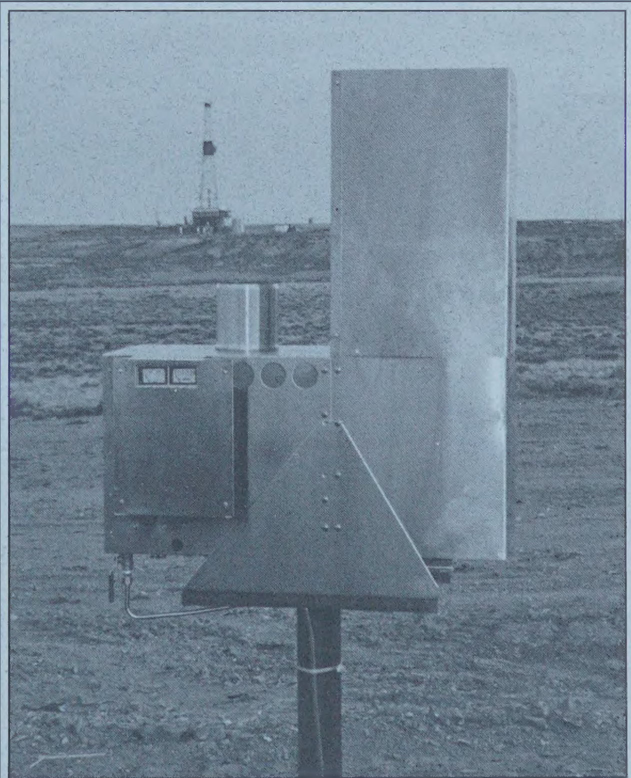
Typical applications include remote terminal units (RTU) and supervisory control and data acquisition (SCADA) equipment for well head and meter station management, cathodic protection and mountaintop radio signal repeater sites.

Global has installed its generators in all climates ranging from deserts and tropical conditions to the arctic and both on and offshore. The generators have proven to be reliable at all altitudes from mountain tops to below sea level and in high wind areas.

21 Watts for Wellhead Automation Equipment

Demand increased substantially in fiscal '95, and in order to meet this demand, production was increased from 15 units per week to 60 units per week. In spite of the increase in production, orders continued to outpace deliveries, and order backlog increased with promised delivery dates stretching to 24 weeks. In order to shorten delivery times to a more acceptable level, the decision was made to ramp up production levels substantially. At the same time, there was considerable effort focused on enhancing product quality and improving the level of customer service. The overall effect of the increased production levels and improved product quality was to dramatically increase Global's ability to meet the soaring demand for its products.

With the emphasis on increasing production output to shorten delivery times, considerable overtime was incurred. Also, direct material costs rose with sharp increases in raw material costs (in particular, aluminum and stainless steel) and the sub-contracting of parts normally manufactured in-house. Production enhancements planned to reduce costs and increase profitability were delayed in order to maintain the high production output.



220 Watts for Cathodic Protection

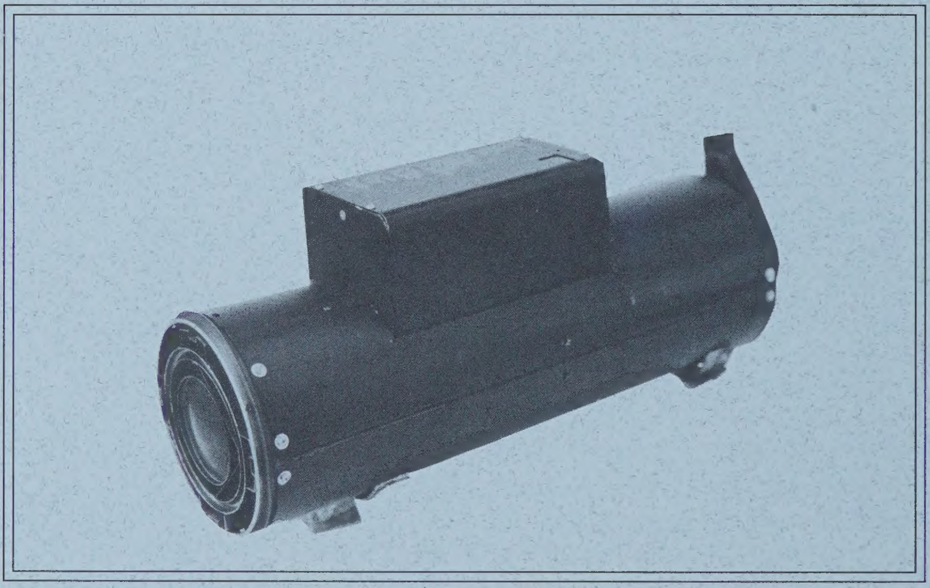
Review of Operations *(Cont'd)*

New Products

Global, and two other U.S. based companies, were awarded contracts by the United States Army for the development of a pre-production prototype of a personnel heater for use in tanks and mobilized vehicles.

Global's heater has performed well throughout the extensive testing procedures. The overall program has been delayed, however, and award of the production model contract, if Global is successful, will not be until the fall of 1995.

Global plans to finance its R & D program from cashflow and, where applicable, through external funding for specific projects. The program will aim to develop new commercial products, to redesign existing products to improve manufacturability, to reduce costs to enhance profitability, and expand market opportunities through a more diversified technology base. It is with a strong commitment to quality and a market focused approach that management believes significant future growth can be achieved.



U.S. Army Vehicle Compartment Heater

Research and Development

Effective research and development has been a critical element of Global's success, and the Company has capitalized on military funded programs to bring a number of products to market. However, with the exception of Global's work on two military heater projects, R & D over the last year has been de-emphasized in favour of marketing and production improvement. This will change dramatically over the next year as new product research and development will move ahead aggressively. In addition, new technologies are being explored for a potential fit into Global's new and existing markets.

Human Resources

Global has embraced a team approach to problem solving throughout the Company. The Company believes that through the continuation of this approach, we will achieve higher productivity and an increased level of job satisfaction among all employees. Global's strength is its people, and it will continue to seek out good people with the right qualifications to move the Company aggressively forward.

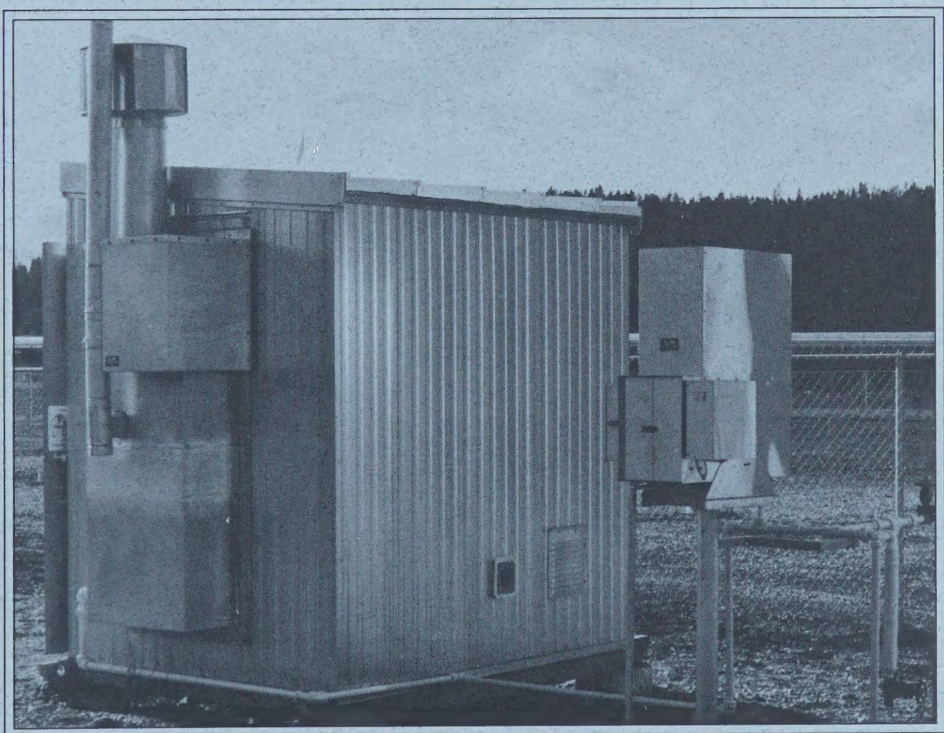
Review of Operations *(Cont'd)*

Quality Assurance

Global's staff are very proud of the work that they do and the service that they offer to our customers. That is why Global embarked upon the ISO 9000 Quality Program - to ensure the consistent quality demanded by our customers. Global now holds registration for the ISO 9002 standards of the program, and will seek to have its registration upgraded to ISO 9001 in the near future.

ISO 9000 is an internationally recognized standard for quality assurance programs. As an ISO 9002 registrant, Global's quality program is audited annually by an accredited registration organization to confirm conformance with the standard.

A philosophy of continuous improvement for all aspects of our business has been adopted by Global, and we now have a solid foundation to build on for the future. A renewed focus on profitability while increasing customer satisfaction will be addressed on an ongoing basis.



220 Watts for CP combined with
100 watt system and Power Environmental Module (PEM) for SCADA.

REVIEW OF OPERATIONS *(CONT'D)*

STRATEGY FOR GROWTH

The Company has adopted four main strategies to develop future growth opportunities:

- expand current markets with existing products
- expand into new geographic markets
- develop new products for both new and existing markets
- strategic acquisitions and alliances

To expand current markets with existing products, the Company will continue to focus on meeting the needs of our customers and exceeding their expectations. Global is well positioned and considered a leader for remote DC power in Canada and the United States. However, we believe that the market provides room for growth. Customer service and quality products will continue to be our strength, and increased advertising and product exposure will also contribute to improved market penetration.

Expansion into new markets will be achieved by targeting specific international countries for market entry. In the past, Global's international business has been focused on individual projects, usually done through sales to multinational companies who have a prior knowledge of the product. Once the project was complete, limited attention was given to that market. This approach has been revised, and our sales team now take those projects and use them as a springboard to develop ongoing relationships in the region. The key to success is increased product knowledge by the agent and customers. This is achieved through the training of the agent and the end user, plus frequent follow-up by Global's sales staff. The tactic has worked very successfully in Pakistan, Bangladesh, Argentina and Nigeria with repeat orders coming in annually from those countries.

Developing new products for both new and existing markets is the responsibility of our development engineering teams and research staff. Our Engineers are currently working on new products to allow Global to compete more effectively and to grow markets. Our researchers are exploring new technologies to determine potential fit with Global's markets. In addition, Global continues to work with the US Military (TACOM) on the development of a new heater for their tanks and mobilized vehicles. It is expected that the bid process will begin in early summer of 1995. This is a new product which Global intends to utilize as a springboard into other mobile heater products.

In addition to internal growth, Global is constantly seeking to identify appropriate acquisitions and alliances where there is a fit with our long term strategy for remote power and heater products.

Management's Discussion and Analysis of Financial Results

Factors Affecting Operating Results

The Company's thermoelectric generator products are used in cathodic protection systems for gas pipelines and wells and in remote well automation and monitoring systems. Increased exploration and development activity in Western Canada coupled with increases in pipeline construction projects in Canada and the United States resulted in a significant growth in demand for the Company's products.

In order to meet this increased demand and to provide products to its customers on a timely basis, the Company had to significantly increase production. In addition, certain planned improvements to the production process were postponed in order to meet delivery schedules.

Results of Operations

Revenues in the twelve months ended March 31, 1995 (fiscal '95) were $11,266,453 as compared to revenues of $5,893,359 in the twelve months ended March 31, 1994 (fiscal '94) and forecast fiscal '95 revenues of $8,461,000. The increases in revenues are due to increased gas exploration and development activity in Western Canada, pipeline construction projects to bring gas to market and an increase in orders from overseas customers.

Cost of Sales in fiscal '95 were $7,493,898 as compared to $3,438,249 in fiscal '94 and $4,513,000 forecast. Gross Profit in fiscal '95 was $3,772,555 or 33% of sales as compared to $2,455,110 or 42% of sales in fiscal '94 and $3,948,000 or 47% of sales in fiscal '95 forecast.

The increased Cost of Sales and resultant decline in Gross Profit percentages is attributable to the following factors:

- The rapid rise in demand and the receipt of large international orders during the normal slow period for North American orders forestalled planned improvements to production processes which, if implemented, would have resulted in fewer in-process product non-conformances.
- A large proportion of overtime had to be worked in order to keep to the delivery schedules required by customers.
- Prices for stainless steel and aluminium rose dramatically over the year, and large orders placed early to lock in prices by customers prevented the Company from passing on these increases.
- Selected components were sub-contracted to outside manufacturers at higher cost than experienced in-house to assist the Company to meet demand.
- The product mix included a higher percentage of lower margin models than forecast.
- The development program with the US Army for the HMP heater went over budget, and a funding extension was not granted. The Company decided to carry on the program at its own cost.
- Commissions paid to agents in respect of international orders totalled $582,432 and were classified as Cost of Sales in fiscal '95 actual, but the forecast classified such costs as marketing expense.
- Warranty, administration, marketing (after allowing for the change in expense classification) and research costs increased as a result of higher sales volumes as more fully detailed in Notes to Comparison.

Net earnings for fiscal '95 were $1,115,732 or 12 cents a share as compared to $362,248 or 5 cents a share in fiscal '94 and $1,656,000 or 18 cents a share in fiscal '95 forecast.

Liquidity and Capital Resources

Working capital at March 31, 1995 was $3,335,750 as compared to forecast working capital of $3,289,000. Receivables are higher than forecast due to higher than forecast sales in the fourth quarter and inventory is higher than forecast due to higher production volumes and raw materials ordered in respect of orders subsequently cancelled. This excess inventory will be utilized in other orders.

The Company has an operating line of credit of $400,000 against which it has drawn down $126,274.

Variances between actual and forecast Balance Sheet and Statement of Operations items are provided in Notes to Comparison.

Comparison of Fiscal 1995 Actual to Forecast

Balance Sheet	Forecast	Actual	Variance	Note
Assets				
Current assets				
Cash	$ 1,755	$ 388	$ (1,367)	i
Receivables	940	1,738	798	ii
Investment tax credits recoverable	84	476	392	iii
Inventories	1,846	2,418	572	iv
Prepaids	61	60	(1)	
	4,686	5,080	394	
Property and equipment	1,953	1,289	(664)	v
Deferred product development costs	575	515	(60)	vi
	$ 7,214	$ 6,884	$ (330)	
Liabilities and Shareholders' Equity				
Current Liabilities				
Payables and accruals	$ 1,062	$ 1,473	$ 411	vii
Income taxes payable	—	—	—	
Warranty accrual	191	123	(68)	viii
Current portion of long-term debt debentures and obligations under capital lease	144	149	5	
	1,397	1,745	348	
Long-term debt	89	89	—	
Debentures	145	146	1	
Obligations under capital lease	43	37	(6)	
	1,674	2,017	343	
Shareholders' Equity				
Capital Stock	5,657	5,494	(163)	
Contributed surplus	725	725	—	
Retained earnings (deficit)	(842)	(1,352)	(510)	
	5,540	4,867	(673)	
	$ 7,214	$ 6,884	$ (330)	

Statement of Operations	Forecast	Actual	Variance	Note
Sales	$ 8,461	$ 11,266	$ 2,805	ix
Cost of Sales	4,513	7,494	2,981	x
Gross profit	3,948	3,772	(176)	
Expenses				
Warranty	191	263	72	xi
Marketing	613	495	(118)	xii
Administration	871	1,201	330	xiii
Research	100	147	47	xiv
Interest on long-term debt	94	75	(19)	xv
	1,869	2,181	312	
Earnings before depreciation and amortization	2,079	1,591	(488)	
Depreciation and amortization	423	475	52	
Earnings before income taxes	1,656	1,116	(540)	
Income taxes	—	—	—	
Net earnings	$ 1,656	$ 1,116	$ (540)	
Basic earnings per common share	$ 0.18	$ 0.12	$ (0.06)	
Fully diluted earnings per common share	$ 0.13	$ 0.09	$ (0.04)	

Notes to Comparison

i) Cash

The decrease in cash resulted from the lower than forecast earnings, higher receivables and higher inventory.

ii) Receivables

The forecast anticipated a sharp drop in sales in the fourth quarter. Higher sales levels in the fourth quarter ($2.1M vs. forecast $1.3M) resulted in higher receivables at year-end.

iii) Investment Tax Credits Recoverable

Increased government scrutiny of all ITC applications has resulted in delays for scheduling and completing Revenue Canada audits of fiscal 1993 and 1994. These are anticipated to be completed in June 1995.

iv) Inventories

Inventory levels built up significantly during the year as production increased. The decline in natural gas prices caused a number of projects to be cancelled, resulting in a buildup of raw material inventories ordered in anticipation of orders subsequently cancelled.

v) Property and Equipment

Forecast equipment purchases in support of the HMP heater production contract did not materialize due to the delay in contract award.

vi) Deferred product development costs

Some development projects were delayed to focus resources on production increases.

vii) Payables and accruals

Payables increased due to higher purchases of raw materials in anticipation of sales in the fourth quarter.

viii) Warranty accruals

The warranty accrual was greater than forecast as the warranty provision expensed was greater than actual warranty claims.

ix) Sales

Increased demand in the Canadian market combined with strong international sales resulted in higher than forecast sales.

x) Cost of sales

The cost of sales increased due to the sales increase, higher material costs, increased labour costs due to overtime, higher proportion of lower margin products sold, the sub-contracting of fabricated parts at higher costs, and higher agent commissions associated with international orders. Note that agent commissions were not included as Cost of Sales in the forecast. Also contributing to the increased Cost of Sales was an increase in plant overhead. Plant overhead rose as additional resources were added to increase plant capacity and improve the quality of products and processes.

xi) Warranty

Warranty provisions are calculated as a percentage of sales and hence increased with the increased sales volume.

xii) Marketing

The comparison of marketing expenses includes a change in reporting practice. In the forecast, the marketing expense included $190,750 in agents commissions. In the fiscal '95 report, the actual commissions were included as Cost of Sales (the normal reporting method). Marketing expenses net of sales commissions increased from a forecast $423,000 to $495,000. This increase reflects the additional marketing effort expended to respond to the escalating demand for generator products.

xiii) Administration

As sales increased during the year, there was a requirement to build a stronger infrastructure for the organization to allow it to sustain high levels of service in all of its functions. Consequently, there was an increase in administration expenses incurred proportional to the increase in sales.

xiv) Research

The forecast R & D budget was based on the funding of a research division separate from the Generator and Heater divisions. In actual fact, much of the activity during fiscal '95 was directed towards the support of production and was either expensed to Administration or deferred. The expenses charged to Research largely reflect Heater Division overheads. These overheads were originally forecast as Cost of Sales in the forecast but were reclassified as Research expenses in the end of year statements because of the delays in starting up heater production.

xv) Interest on long-term debt

Interest charges decreased due to lower than anticipated interest rates.

Auditors' Report

To the Shareholders of
Global Thermoelectric Inc.

We have audited the balance sheets of Global Thermoelectric Inc. as at March 31, 1995 and 1994 and the statements of earnings, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 1995 and 1994 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte Raymond

Calgary, Alberta
May 12, 1995

Chartered Accountants

Statements of Earnings and Deficit

Year Ended March 31	1995	1994
Sales	$ 11,266,453	$ 5,893,359
Cost of sales	7,493,898	3,438,249
Gross profit	3,772,555	2,455,110
Expenses		
Warranty	263,461	115,967
Marketing	495,433	360,260
Administration	1,200,587	869,318
Research	147,208	93,441
Interest on long-term debt	75,228	141,426
	2,181,917	1,580,412
Earnings before undernoted	1,590,638	874,698
Depreciation	163,409	152,970
Amortization of deferred development costs	232,076	347,027
Loss on sale of fixed assets	79,421	—
	474,906	499,997
Earnings before income taxes	1,115,732	374,701
Income taxes (Note 10)	—	12,453
Net earnings	$ 1,115,732	$ 362,248
Basic earnings per common share	$ 0.12	$ 0.05
Fully diluted earnings per common share	$ 0.09	$ 0.04
Statement of deficit		
Deficit, beginning of year	$ (2,397,709)	$ (2,759,957)
Net earnings	1,115,732	362,248
Dividends - preferred shares	(69,733)	—
Deficit, end of year	$ (1,351,710)	$ (2,397,709)

See accompanying notes to the financial statements.

Balance Sheet

March 31	1995	1994
Assets		
Current		
Cash (Note 3)	**$ 388,168**	$ 277,984
Receivables	**1,738,421**	1,215,531
Investment tax credits recoverable	**476,275**	350,001
Inventories	**2,417,776**	1,064,617
Prepaids	**59,735**	124,622
	5,080,375	3,032,755
Property and equipment (Note 4)	**1,289,108**	1,011,791
Deferred product development costs (Note 5)	**514,689**	567,469
	$ 6,884,172	$ 4,612,015
Liabilities		
Current		
Demand loan payable	**$ —**	$ 100,000
Payables and accruals	**1,439,412**	767,207
Income taxes payable	**—**	12,453
Warranty accrual	**122,467**	63,538
Deferred revenue	**33,350**	533,871
Current portion of long-term debt, debentures and obligations under capital lease	**149,396**	262,563
	1,744,625	1,739,632
Long-term debt (Note 6)	**88,880**	23,895
Debentures (Note 7)	**146,178**	496,178
Obligations under capital lease (Note 8)	**37,422**	107,795
	2,017,105	2,367,500
Shareholders' Equity		
Capital stock (Note 9)	**5,493,778**	4,642,224
Contributed surplus (Note 9)	**724,999**	—
Deficit	**(1,351,710)**	(2,397,709)
	4,867,067	2,244,515
	$ 6,884,172	$ 4,612,015

Contingencies and commitments (Notes 11 and 12)

On behalf of the Board

Director — Kerry Brown

Director — Glynn Davies

See accompanying notes to the financial statements.

Statement of Changes in Financial Position

Year Ended March 31	1995	1994
Cash derived from (applied to)		
Operating		
Net earnings	$ 1,115,732	$ 362,248
Depreciation and amortization	395,485	499,997
Loss (gain) on disposal of property and equipment	79,421	(17,229)
	1,590,638	845,016
Change in non-cash operating working capital	(1,719,276)	(255,718)
	(128,638)	589,298
Financing		
Repayment of long-term debt net of proceeds	(468,555)	(236,223)
Issue of shares	1,972,307	315,000
Share issue costs	(395,753)	—
Redemption of share (Note 9)	(1)	—
Dividends paid	(69,733)	—
	1,038,265	78,777
Investing		
Purchase of equipment	(611,929)	(232,759)
Proceeds on sale of property and equipment	91,782	22,681
Deferred product development costs net of investment tax credits and write-offs	(179,296)	(52,949)
	(699,443)	(263,027)
Increase in cash	210,184	405,048
Cash (bank indebtedness),		
Beginning of year	177,984	(227,064)
End of year	$ 388,168	$ 177,984
Cash is comprised of:		
Cash	$ 388,168	$ 277,984
Demand loan payable	—	(100,000)
	$ 388,168	$ 177,984

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 1995

1. Nature of operations

The Company manufactures and distributes thermoelectric power generators to customers both in Canada and internationally. It also conducts research and development on heaters and other thermoelectric powered devices.

2. Summary of significant accounting policies

Inventories

Inventories of finished goods and work in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost. Cost includes material, labour and manufacturing overhead. Cost is determined on a first-in, first-out basis.

Property and equipment

Property and equipment are recorded at cost. Depreciation is applied to write-off the cost less estimated salvage value of property and equipment over their estimated lives on a straight-line basis as follows:

Buildings	5%	Machinery and equipment	10 - 20%
Automotive equipment	33 1/3%	Computer equipment	20 - 33 1/3%
Furniture and fixtures	20 - 33 1/3%		

Research and development

Research costs are expensed as incurred. Development costs are expensed unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized on a straight-line basis over four years commencing with the first year of production of the related products.

Foreign currency

The Company uses the current rate method for the translation of foreign currency. Under this method, assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at the rate of exchange prevailing at the transaction date. Translation gains or losses are included in earnings.

Investment tax credits

Investment tax credits are accounted for using the cost reduction method, under which investment tax credits are deducted from the cost of the related property and equipment or expenses. Depreciation and amortization are calculated on the net amount of the related property and equipment.

Earnings per share

The calculation of basic earnings per share is based on the weighted average number of shares outstanding during the period. Fully diluted earnings per share reflects the dilutive effect of the conversion of the preferred shares, convertible debentures and the exercise of warrants and options outstanding at March 31, 1995. The number of shares for the fully diluted earnings per share calculation was 12,880,438 (1994 - 8,561,507).

3. Cash

	1995	1994
Cash	**$ 514,542**	$ 277,984
Operating Line of Credit	**(126,274)**	—
	$ 388,168	$ 277,984

The Company has secured an Operating Line of Credit of $400,000. As security, the Company has pledged accounts receivable, inventory and a general security agreement over all assets.

NOTES TO FINANCIAL STATEMENTS *(CONT'D)*

March 31, 1995

4. Property and equipment			**1995**	1994
	Cost	Accumulated Depreciation	**Net Book Value**	Net Book Value
Land	$ 16,694	—	**$ 16,694**	$ 55,867
Buildings	1,232,087	$ 816,364	**415,723**	511,425
Machinery and equipment	2,570,706	1,873,407	**697,299**	188,269
Equipment under capital lease	255,766	96,374	**159,392**	256,230
	$ 4,075,253	$ 2,786,145	**$1,289,108**	$1,011,791

5. Deferred product development costs	**1995**	1994
Deferred product development costs, beginning of year	**$ 567,469**	$ 861,547
Costs incurred during the year	**220,828**	88,989
Investment tax credits earned	**(41,532)**	(36,040)
Amortization	**(232,076)**	(347,027)
	(52,780)	(294,078)
Deferred product development costs, end of year	**$ 514,689**	$ 567,469

Deferred product development costs represent costs incurred to date and do not necessarily reflect present or future value.

6. Long-term debt	**1995**	1994
Western Economic Diversification, unsecured, interest at 8.36%, repayable in monthly instalments of principal and interest of $1,500 up to August, 1994 and at $3,000 thereafter until maturity in September, 1995.	**$ 23,895**	$ 49,061
Bank of Nova Scotia, loan secured by a collateral mortgage over land and buildings, repayable in monthly principal payments of $5,556 and interest at bank prime rate plus 2%, maturing in July, 1997.	**155,552**	—
Western Economic Diversification, unsecured, non-interest bearing, without specific repayment terms. The lender has forgiven principal in the amount of $20,000 as a result of the Company obtaining certification for a specific quality assurance standard.	**—**	33,741
	179,447	82,802
Less current portion included in long-term liabilities	**90,567**	58,907
	$ 88,880	$ 23,895

Principal payments due in the next three years:

1996	$ 90,567
1997	$ 66,672
1998	$ 22,208

NOTES TO FINANCIAL STATEMENTS (CONT'D)

March 31, 1995

7. **Debentures**		**1995**		1994
Foundation Equity Corporation	$	**146,178**	$	146,178
Todd Holdings Ltd.		—		150,000
Todd Acceptance Inc.		—		200,000
L. E. Stewart		—		50,000
W. G. Lancaster		—		70,000
		146,178		616,178
Less current portion included in current liabilities		—		(120,000)
	$	**146,178**	$	496,178

The amounts due to Foundation Equity Corporation are comprised of two debentures in the amounts of $70,000 and $76,178 which bear interest at a rate of 12% per annum. The debentures are repayable by February 1997 or convertible at the option of the holder into common shares at a rate of one share per $0.30 and $1 of debenture converted respectively if exercised prior to February, 1997.

The debentures are secured by a charge against the building, machinery and equipment, subordinate to the Bank of Nova Scotia loan per Note 6.

8. **Obligations under capital lease**		**1995**		1994
Capital leases, varying effective interest rates from 8.06% to 17.83%, each secured by specific equipment, repayable in aggregate monthly instalments of $8,795, including interest, due at varying dates to July 1998.	$	**96,251**	$	191,452
Less current portion included in current liabilities		**58,829**		83,657
	$	**37,422**	$	107,795

Future minimum lease payments under long-term capital leases are as follows:

1996	$	66,008
1997		22,196
1998		14,464
1999		4,821
		107,489
Amount representing interest		11,238
	$	96,251

NOTES TO FINANCIAL STATEMENTS *(CONT'D)*

March 31, 1995

9. Capital stock

Authorized:

Unlimited common shares
Unlimited preferred shares, issuable in series

During the year, the Company increased its authorized common shares from 10,000,000 to an unlimited number and authorized an unlimited number of preferred shares, cancelling for reuse the previously authorized Class G and H preferred shares.

		1995	1994
Issued:			
9,452,192	common shares	**$3,917,224**	$ 3,917,224
Nil	Class G preferred shares (1994 - 1)	—	725,000
666,500	Series I non-voting redeemable convertible preferred shares with a 10% cumulative semi-annual dividend payable in U.S. dollars	**1,576,554**	—
		$5,493,778	$ 4,642,224

During the year, the Company redeemed the 1 outstanding Class G preferred share for cash consideration of $1 with the difference between the stated value of the share and the redemption amount being credited to contributed surplus.

The Company issued 666,500 Series I preferred shares during the year for cash consideration of $1,972,307 ($1,439,640 U.S. dollars) less share issue costs associated with the issue of $395,753. The Series I preferred shares are redeemable after March 31, 1997 at their issue price and prior to that date subject to certain conditions. In addition, these preferred shares are convertible at the rate of 4 common shares for each preferred share outstanding.

Warrants:
Pursuant to the Series I preferred share issue, 1,333,000 share purchase warrants were issued. Each warrant entitles the holder to acquire 1 common share at $0.60 per share, expiring February 5, 1996.

An additional 400,000 non-transferrable warrants were issued to Charlton Securities Limited as partial compensation for acting as agent for the Series I preferred share issue. The warrants are exercisable at $0.60 per warrant, expiring August 5, 1995.

Options
Pursuant to an agreement dated January 1, 1994, the Company granted the President an option to acquire 143,000 common shares at a price of $0.07 per share exercisable until December 31, 1996.

During the year, 375,000 share options were granted to directors and key employees. The options are exercisable at $0.60 per share, expiring August 3, 1997.

NOTES TO FINANCIAL STATEMENTS *(CONT'D)*

March 31, 1995

10. Income taxes

Income tax expense differs from the amount which would be obtained by applying the basic combined Federal and Provincial tax rate to the respective years' earnings before income taxes. These differences result from the following items:

	1995	1994
Expected income tax expense at 44.34% (1994 - 44.34%)	**$ 494,716**	$ 166,142
Increase (decrease) resulting from:		
Excess of depreciation over capital cost allowance	**10,562**	—
Amortization of deferred development costs	**102,902**	153,872
Scientific Research and Development expenditures not deducted for income tax purposes	**154,719**	92,793
Other	**37,386**	(204)
Scientific research expenditures claimed	**(747,439)**	—
Investment tax credits applied against expenses for accounting purposes	**(37,575)**	(127,511)
Small business deduction	**—**	(51,000)
Manufacturing and processing deduction	**(2,573)**	—
Investment tax credits	**—**	(25,262)
Reduction of income taxes by utilization of losses carried forward	**(12,698)**	(196,377)
	$ —	$ 12,453

For income tax purposes, the Company has investment tax credits, as of March 31, 1995, of $64,000 which can be used to reduce future taxes payable, expiring in 1996.

In addition, the Company has research and development expenditures of $1,524,000 which are deductible from future years' taxable income.

11. Contingencies

During the year the Company arranged for the issue of Letters of Credit and Guarantees to a maximum of $250,000 U.S. At March 31, 1995, the Company had issued Letters of Credit and Guarantees with respect to the above in the amount of $178,393 U.S. Security for the letters is covered under the Operating Line of Credit per Note 3.

An action has been commenced against the Company by its former President. The claims advanced in this action include wrongful termination of employment, a claim for director's fees and car allowances, and compensation in respect of guarantees and a demand loan. The total claim approximates $374,000. The Company has filed a counterclaim against this individual.

In addition, an action was commenced against the Company in May, 1992 based on wrongful termination of employment, in which damages of $90,000 are claimed. The Company has filed a Statement of Defence and a counterclaim against this individual.

Although these proceedings are at an early stage and the Company is not yet able to predict their potential outcomes, it believes that its potential exposure is substantially less than the amounts claimed.

NOTES TO FINANCIAL STATEMENTS *(CONT'D)*

March 31, 1995

11. Contingencies *(Cont'd)*

Any costs arising from the settlement of the claims will be recorded when determinable and will be accounted for as a prior period adjustment.

12. Commitments

Subsequent to year end, the Company entered into a lease for new office premises expiring in December 2001. The annual rent of premises consists of minimum rent plus taxes, maintenance, heat and certain other expenses. Future minimum lease payments for the fiscal years ending March 31 are as follows:

1996	$	45,720
1997	$	66,040
1998	$	68,580
1999	$	68,580
2000	$	71,120
2001	$	71,120
2002	$	55,563

13. Segmented information

The Company operates in one business segment as described in Note 1. Export sales for the year ended March 31, 1995 were $5,969,727 (1994 - $3,951,480).

Corporate Information

Global Thermoelectric Inc.
Corporate Headquarters

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Chairman and Director
President, Prairie Metal Industries Ltd. and HBD Management Services Ltd.

Kerry W. Brown (1)
Secretary and Director
President, Foundation Equity Corporation

Robert Snyder
Director
Former Senior Vice-President Nova Gas Transmission Ltd.

Keith Wiggins(1)
Director
Former Senior Financial Officer, Government of Alberta

John W. Chomiak
Director
President, Hemisphere Engineering Inc.

Glynn G. Davies (1)
Director
Independent Businessman

(1) Audit Committee Members

Management

Robert S. Clegg
President & CEO

Jim R. Lumsden
Vice-President Research

Bernie LeSage
General Manager
Generator Division

Gordon McBride
Manager
Thermoelectric Engineering

***Management** (Cont'd)*

Daryl K. Marling
Heater Engineering Manager

Larry I. Kyle
Controller

John Howard
Quality Assurance Manager

Eric Potter
Canadian and International Sales Manager

Dan Thornton
U.S. and International Sales Manager

George Longmuir
Plant Manager – Bassano

John Hutchinson
Customer Service Manager

Bankers

The Bank of Nova Scotia
Calgary, Alberta

Auditors

Doane Raymond
Calgary, Alberta

Solicitors

Blain & Company
Calgary, Alberta

Bryan & Company
Edmonton, Alberta

Transfer Agent and Registrar

Montreal Trust Company of Canada
Calgary, Alberta

Stock Listing

The Alberta Stock Exchange
Trading Symbol: **GLE.PR, GLE.WT**

200 Watt Hazardous Rated System in Offshore Application

Annual Meeting

The Annual General Meeting of the Shareholders of the Corporation will be held at the Calgary Chamber of Commerce, 517 Centre Street South, Calgary, Alberta on Tuesday, July 11, 1995 at 3:00 p.m.

GLOBAL THERMOELECTRIC

Global Thermoelectric Inc.

Corporate Headquarters

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